

CHAPTER 1

Accounting in Action

Learning Objectives

1. Identify the activities and users associated with accounting.
 2. Explain the building blocks of accounting: ethics, principles, and assumptions.
 3. State the accounting equation, and define its components.
 4. Analyze the effects of business transactions on the accounting equation.
 5. Describe the four financial statements and how they are prepared.
 - *6. Explain the career opportunities in accounting.
- *Note:** All **asterisked** Questions, Brief Exercises, Exercises, and Problems relate to material contained in the appendix to the chapter.

ANSWERS TO QUESTIONS

1. This is true. Virtually every organization and person in our society uses accounting information. Businesses, investors, creditors, government agencies, and not-for-profit organizations must use accounting information to operate effectively.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

2. Accounting is the process of identifying, recording, and communicating the economic events of an organization to interested users of the information. The first activity of the accounting process is to identify economic events that are relevant to a particular business. Once identified and measured, the events are recorded to provide a history of the financial activities of the organization. Recording consists of keeping a chronological diary of these measured events in an orderly and systematic manner. The information is communicated through the preparation and distribution of accounting reports, the most common of which are called financial statements. A vital element in the communication process is the accountant's ability and responsibility to analyze and interpret the reported information.

LO1 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

3. (a) Internal users are those who plan, organize, and run the business and therefore are officers and other decision makers.
(b) To assist management, managerial accounting provides internal reports. Examples include financial comparisons of operating alternatives, projections of income from new sales campaigns, and forecasts of cash needs for the next year.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

4. (a) Investors (owners) use accounting information to make decisions to buy, hold, or sell ownership shares of a company.
(b) Creditors use accounting information to evaluate the risks of granting credit or lending money.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

5. This is false. Bookkeeping usually involves only the recording of economic events and therefore is just one part of the entire accounting process. Accounting, on the other hand, involves the entire process of identifying, recording, and communicating economic events.

LO1 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

6. Benton Travel Agency should report the land at \$90,000 on its December 31, 2022 balance sheet. This is true not only at the time the land is purchased, but also over the time the land is held. In determining which measurement principle to use (historical cost or fair value) companies weigh the factual nature of cost figures versus the relevance of fair value. In general, companies use historical cost. Only in situations where assets are actively traded do companies apply the fair value principle.

LO2 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

7. The monetary unit assumption requires that only transaction data that can be expressed in terms of money be included in the accounting records. This assumption enables accounting to quantify (measure) economic events.

LO2 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

8. The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owners and all other economic entities.

LO2 BT: K Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

Questions Chapter 1 (Continued)

- 9.** The three basic forms of business organizations are: (1) proprietorship, (2) partnership, and (3) corporation.

LO2 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

- 10.** One of the advantages Helen Rupp would enjoy is that ownership of a corporation is represented by transferable shares of stock. This would allow Helen to raise money easily by selling a part of her ownership in the company. Another advantage is that because holders of the shares (stockholders) enjoy limited liability; they are not personally liable for the debts of the corporate entity. Also, because ownership can be transferred without dissolving the corporation, the corporation enjoys an unlimited life.

LO2 BT: K Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

- 11.** The basic accounting equation is $\text{Assets} = \text{Liabilities} + \text{Owner's Equity}$.

LO3 BT: K Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Measurement

- 12.** (a) Assets are resources owned by a business. Liabilities are creditor claims against assets. Put more simply, liabilities are existing debts and obligations. Owner's equity is the ownership claim on total assets.

(b) Owner's equity is affected by owner's investments, drawings, revenues, and expenses.

LO3 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

- 13.** The liabilities are: (b) Accounts payable and (g) Salaries and wages payable.

LO3 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

- 14.** Yes, a business can enter into a transaction in which only the left side of the accounting equation is affected. An example would be a transaction where an increase in one asset is offset by a decrease in another asset. An increase in the Equipment account which is offset by a decrease in the Cash account is a specific example.

LO4 BT: C Difficulty: Moderate TOT: 3 min. AACSB: None AICPA FC: Reporting

- 15.** Business transactions are the economic events of the enterprise recorded by accountants because they affect the basic accounting equation.

(a) The death of the owner of the company is not a business transaction as it does not affect of the components of the basic accounting equation.

(b) Supplies purchased on account is a business transaction as it affects the basic accounting equation.

(c) An employee being fired is not a business transaction as it does not affect any of the components of the basic accounting equation.

(d) A withdrawal of cash by the owner from the business is a business transaction as it affects the basic accounting equation.

LO4 BT: C Difficulty: Moderate TOT: 4 min. AACSB: None AICPA FC: Reporting

- 16.** (a) Decrease assets and decrease owner's equity.

(b) Increase assets and decrease assets.

(c) Increase assets and increase owner's equity.

(d) Decrease assets and decrease liabilities.

LO4 BT: C Difficulty: Moderate TOT: 3 min. AACSB: None AICPA FC: Reporting

Questions Chapter 1 (Continued)

17. (a) Income statement. (d) Balance sheet.
 (b) Balance sheet. (e) Balance sheet and owner's equity statement.
 (c) Income statement. (f) Balance sheet.

LO5 BT: C Difficulty: Easy TOT: 2 min. AACSB: None AICPA FC: Reporting

18. No, this treatment is not proper. While the transaction does involve a receipt of cash, it does not represent revenues. Revenues are the gross increase in owner's equity resulting from business activities entered into for the purpose of earning income. This transaction is simply an additional investment made by the owner in the business; it increases Cash and Owner's Capital.

LO4 BT: C Difficulty: Moderate TOT: 3 min. AACSB: None AICPA FC: Reporting

19. Yes. Net income does appear on the income statement—it is the result of subtracting expenses from revenues. In addition, net income appears in the owner's equity statement—it is shown as an addition to the beginning-of-period capital. Indirectly, the net income of a company is also included in the balance sheet. It is included in the end-of-period capital which appears in the owner's equity section of the balance sheet.

LO5 BT: C Difficulty: Moderate TOT: 4 min. AACSB: None AICPA FC: Reporting

20. (a) Ending capital balance.....	\$189,000
Less: Beginning capital balance.....	<u>186,000</u>
Net income.....	<u>\$ 3,000</u>

(\$189,000 – \$186,000 = \$3,000)

(End. cap. bal. – Beg. cap. bal. = Net inc.)

(b) Ending capital balance.....	\$189,000
Less: Beginning capital balance.....	<u>186,000</u>
Net increase in capital balance	3,000
Deduct: Investment.....	<u>13,000</u>
Net loss.....	<u>\$ (10,000)</u>

(\$189,000 – \$186,000 – \$13,000 = (\$10,000))

(End. cap. bal. – Beg. cap. bal. – Invest. = Net. loss)

LO5 BT: AP Difficulty: Moderate TOT: 4 min. AACSB: Analytic AICPA FC: Reporting

21. (a) Total revenues (\$20,000 + \$70,000).....	\$90,000
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(\$20,000 + \$70,000 = \$90,000)

(Cash rev. + Rev. on acct. = Tot. rev.)

(b) Total expenses (\$26,000 + \$40,000).....	\$66,000
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(\$26,000 + \$40,000 = \$66,000)

(Cash exp. + Exp. on acct. = Tot. exp.)

(c) Total revenues.....	\$90,000
Total expenses.....	<u>66,000</u>
Net income.....	<u>\$24,000</u>

(\$90,000 – \$66,000 = \$24,000)

(Tot. rev. – Tot. exp. = Net inc.)

LO5 BT: AP Difficulty: Moderate TOT: 4 min. AACSB: Analytic AICPA FC: Reporting

22. Apple's accounting equation (in millions) at September 28, 2019 was \$338,516 = \$248,028 + \$90,488.

(\$338,516 = \$248,028 + \$90,488)

(Tot. assets = Tot. liabl. + Tot. stkhldrs. equity)

LO3 BT: AP Difficulty: Moderate TOT: 3 min. AACSB: Analytic AICPA FC: Reporting

SOLUTIONS TO BRIEF EXERCISES

BRIEF EXERCISE 1.1

(a) $\$90,000 - \$50,000 = \$40,000$ (Owner's Equity).

(\$90,000 - \$50,000 = \$40,000)

(Assets - Liabl. = Owner's equity)

(b) $\$44,000 + \$70,000 = \$114,000$ (Assets).

(\$44,000 + \$70,000 = \$114,000)

(Liabl. + Owner's equity = Assets)

(c) $\$94,000 - \$53,000 = \$41,000$ (Liabilities).

(\$94,000 - \$53,000 = \$41,000)

(Assets - Owner's equity = Liabl.)

LO3 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Reporting

BRIEF EXERCISE 1.2

(a) $\$120,000 + \$230,000 = \$350,000$ (Total assets).

(\$120,000 + \$230,000 = \$350,000)

(Liabl. + Owner's equity = Assets)

(b) $\$190,000 - \$89,000 = \$101,000$ (Total liabilities).

(\$190,000 - \$89,000 = \$101,000)

(Assets - Owner's equity = Liabl.)

(c) $\$900,000 - 0.5(\$900,000) = \$450,000$ (Owner's equity).

[\$900,000 - (\$900,000 x .5) = \$450,000]

[Assets - (Assets x .5) = Owner's equity]

LO3 BT: AP Difficulty: Easy TOT: 3 min. AACSB: Analytic AICPA FC: Reporting

BRIEF EXERCISE 1.3

**(a) $(\$800,000 + \$150,000) - (\$300,000 - \$60,000) = \$710,000$
(Owner's equity).**

[(\\$800,000 + \$150,000) - (\$300,000 - \$60,000) = \$710,000]

[(Beg. assets + Incr. in assets) - (Beg. liabl. - Decr. in liabl.) = End. owner's equity]

**(b) $(\$300,000 + \$100,000) + (\$800,000 - \$300,000 - \$70,000) = \$830,000$
(Assets).**

[(\\$300,000 + \$100,000) + (\$800,000 - \$300,000 - \$70,000) = \$830,000]

[(Beg. liabl. + Incr. in liabl.) + (Beg. assets - Beg. liabl. - Decr. in owner's equity) = End. assets]

**(c) $(\$800,000 - \$80,000) - (\$800,000 - \$300,000 + \$120,000) = \$100,000$
(Liabilities).**

[(\\$800,000 - \$80,000) - (\$800,000 - \$300,000 + \$120,000) = \$100,000]

[(Beg. assets - Decr. in assets) - (Beg. assets - Beg. liabl. + Incr. in owner's equity) = End. liabl.]

BRIEF EXERCISE 1.4

			Owner's Equity			
Assets	=	Liabilities	+	Owner's Capital	-	Owner's Drawings + Revenues - Expenses
(a) X	=	\$90,000	+	\$150,000	-	\$40,000 + \$450,000 - \$340,000
X	=	\$90,000	+	\$220,000		
X	=	<u>\$310,000</u>				

(Assets = \$90,000 + \$150,000 - \$40,000 + \$450,000 - \$340,000)

(Assets = Liabl. + Owner's cap. - Owner's draw. + Rev. - Exp.)

(b) \$57,000	=	X	+	\$35,000	-	\$7,000 + \$52,000 - \$35,000
\$57,000	=	X	+	\$45,000		
X	=	<u>\$12,000</u>				

(\$57,000 = Liabl. + \$35,000 - \$7,000 + \$52,000 - \$35,000)

(Assets = Liabl. + Owner's cap. - Owner's draw. + Rev. - Exp.)

(c) \$660,000	=	(\$660,000 x 2/3) + X (Owner's equity)				
\$660,000	=	\$440,000	+	X		
X	=	<u>\$220,000</u>				

[\$660,000 = (\$660,000 x 2/3) + Owner's equity]

[Assets = (Assets x 2/3) + Owner's equity]

BRIEF EXERCISE 1.5

<u>A</u> (a) Accounts receivable	<u>A</u> (d) Supplies
<u>L</u> (b) Salaries and wages payable	<u>OE</u> (e) Owner's capital
<u>A</u> (c) Equipment	<u>L</u> (f) Notes payable

BRIEF EXERCISE 1.6

<u>E</u> (a) Advertising expense	<u>D</u> (e) Owner's drawings
<u>R</u> (b) Service revenue	<u>R</u> (f) Rent revenue
<u>E</u> (c) Insurance expense	<u>E</u> (g) Utilities expense
<u>E</u> (d) Salaries and wages expense	

BRIEF EXERCISE 1.7

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	+	NE
(b)	+	NE	+
(c)	–	NE	–

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 1.8

	<u>Assets</u>	<u>Liabilities</u>	<u>Owner's Equity</u>
(a)	+	NE	+
(b)	–	NE	–
(c)	NE*	NE	NE

*Cash increased and Accounts Receivable decreased; total Assets were unchanged.

LO4 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 1.9

<u> R </u>	(a) Received cash for services performed.
<u>NOE</u>	(b) Paid cash to purchase equipment.
<u> E </u>	(c) Paid employee salaries.

LO4 BT: C Difficulty: Easy TOT: 1 min. AACSB: None AICPA FC: Reporting

BRIEF EXERCISE 1.10

SMYTH COMPANY Balance Sheet December 31, 2022

<u>Assets</u>	
Cash.....	\$ 49,000
Accounts receivable.....	<u>62,500</u>
Total assets.....	<u>\$111,500</u>
 <u>Liabilities and Owner's Equity</u>	
Liabilities	
Accounts payable.....	\$ 90,000
Owner's equity	
Owner's capital.....	<u>21,500</u>
Total liabilities and owner's equity.....	<u>\$111,500</u>

[(\$49,000 + \$62,500) = \$90,000 + \$21,500]

[(Cash + Accts. rec.) = Accts. pay. + Owner's cap.]

LO5 BT: AP Difficulty: Easy TOT: 4 min. AACSB: Analytic AICPA FC: Reporting

BRIEF EXERCISE 1.11

<u>BS</u>	(a) Notes payable
<u>IS</u>	(b) Advertising expense
<u>OE, BS</u>	(c) Owner's capital
<u>BS</u>	(d) Cash
<u>IS</u>	(e) Service revenue

LO5 BT: C Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

SOLUTIONS FOR DO IT! EXERCISES

DO IT! 1.1

1. **False.** The three steps in the accounting process are identification, recording, and communication.
2. **True.**
3. **False.** Financial accounting provides reports to help investors and creditors evaluate a company.
4. **True.**
5. **True.**

LO1 BT: K Difficulty: Easy TOT: 3 min. AACSB: None AICPA FC: Reporting

DO IT! 1.2

1. **False.** Congress passed the Sarbanes-Oxley Act to reduce unethical behavior and decrease the likelihood of future corporate scandals.
2. **False.** The standards of conduct by which actions are judged as right or wrong, honest or dishonest, fair or not fair, are ethics.
3. **False.** The primary accounting standard-setting body in the United States is the Financial Accounting Standards Board (FASB).
4. **True.**
5. **True.**

LO2 BT: K Difficulty: Easy TOT: 4 min. ACSB: None AICPA FC: Reporting

DO IT! 1.3

1. **Drawings is owner's drawings (D); it decreases owner's equity.**
2. **Rent revenue is revenue (R); it increases owner's equity.**
3. **Advertising expense is an expense (E); it decreases owner's equity.**
4. **When the owner puts personal assets into the business, it is investment by owner (I); it increases owner's equity.**

LO3 BT: AP Difficulty: Easy TOT: 6 min. AACSB: None AICPA FC: Reporting

DO IT! 1.4

Assets		=	Liabilities	+	Owner's Equity		
Accounts			Accounts		Owner's	Owner's	
Cash	+ Receivable	=	Payable	+	Capital	- Drawings	+ Revenues - Expenses
(1)	+\$20,000						+\$20,000
(2) +	- 20,000						
\$20,000							
(3)			+\$3,200				- \$3,200
							0
(4) -	2,500					-\$2,500	
<u>\$17,500</u>	+ <u>\$ 0</u>	=	<u>\$3,200</u>	+	- <u>\$2,500</u>	+ <u>\$20,000</u>	- <u>\$3,200</u>

LO4 BT: AP Difficulty: Moderate TOT: 8 min. AACSB: Analytic AICPA FC: Reporting

DO IT! 1.5

- (a) The total assets are \$49,000, comprised of Cash \$6,500, Accounts Receivable \$13,500, and Equipment \$29,000.

(\$6,500 + \$13,500 + \$29,000 = \$49,000)

(Cash + Accts. rec. + Equip. = Tot. assets)

- (b) Net income is \$20,500, computed as follows:

Revenues		
Service revenue.....		\$53,500
Expenses		
Salaries and wages expense.....	\$16,500	
Rent expense.....	10,500	
Advertising expense.....	6,000	
Total expenses.....		<u>33,000</u>
Net income.....		<u>\$20,500</u>

[\$53,500 – (\$16,500 + \$10,500 + \$6,000) = \$20,500]
[Serv. rev. – (Sal. & wages exp. + Rent exp. + Advert. exp) = Net inc.]

- (c) The ending owner's equity balance of Kirby Company is \$21,000. By rewriting the accounting equation, we can compute Owner's Equity as Assets minus Liabilities, as follows:

Total assets [as computed in (a)].....		\$49,000
Less: Liabilities		
Notes payable.....	\$25,000	
Accounts payable.....	3,000	<u>28,000</u>
Owner's equity.....		<u>\$21,000</u>

Note that it is not possible to determine the company's owner's equity in any other way, because the beginning balance for owner's equity is not provided.

[\$49,000 – (\$25,000 + \$3,000) = \$21,000]

[Tot. assets – (Notes pay. + Accts. pay.) = Owner's equity]

LO 5 BT: AP Difficulty: Moderate TOT: 10 min. AACSB: Analytic AICPA FC: Reporting

SOLUTIONS TO EXERCISES

EXERCISE 1.1

- C Analyzing and interpreting information.
- R Classifying economic events.
- C Explaining uses, meaning, and limitations of data.
- R Keeping a systematic chronological diary of events.
- R Measuring events in dollars and cents.
- C Preparing accounting reports.
- C Reporting information in a standard format.
- I Selecting economic activities relevant to the company.
- R Summarizing economic events.

LO1 BT: C Difficulty: Moderate TOT: 6 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.2

(a) *Internal users*

Marketing manager
Production supervisor
Store manager
Vice-president of finance

External users

Customers
Internal Revenue Service
Labor unions
Securities and Exchange Commission
Suppliers

- (b) I Can we afford to give our employees a pay raise?
E Did the company earn a satisfactory income?
I Do we need to borrow in the near future?
E How does the company's profitability compare to other companies?
I What does it cost us to manufacture each unit produced?
I Which product should we emphasize?
E Will the company be able to pay its short-term debts?

LO1 BT: C Difficulty: Simple TOT: 6 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.3

Angela Duffy, president of Duffy Company, instructed Jana Barth, the head of the accounting department, to report the company's land in its accounting reports at its fair value of \$170,000 instead of its cost of \$100,000, in an effort to make the company appear to be a better investment. The historical cost principle requires that assets be recorded and reported at their cost, because cost is faithfully representative and can be objectively measured and verified. In this case, the historical cost principle should be used and Land reported at \$100,000, not \$170,000.

The stakeholders include stockholders and creditors of Duffy Company, potential stockholders and creditors, other users of Duffy's accounting reports, Angela Duffy, and Jana Barth. All users of Duffy's accounting reports could be harmed by relying on information that may be unreliable. Angela Duffy could benefit if the company is able to attract more investors but would be harmed if the inappropriate reporting is discovered. Similarly, Jana Barth could benefit by pleasing her boss, but would be harmed if the inappropriate reporting is discovered.

Jana's alternatives are to report the land at \$100,000 or to report it at \$170,000. Reporting the land at \$170,000 is not appropriate since it may mislead many people who rely on Duffy's accounting reports to make financial decisions. Jana should report the land at its cost of \$100,000. She should try to convince Angela Duffy that this is the appropriate course of action, but be prepared to resign her position if Duffy insists.

LO2 BT: C Difficulty: Moderate TOT: 8 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.4

1. **Incorrect.** The historical cost principle requires that assets (such as buildings) be recorded and reported at their cost.
2. **Correct.** The monetary unit assumption requires that companies include in the accounting records only transaction data that can be expressed in terms of money.
3. **Incorrect.** The economic entity assumption requires that the activities of the entity be kept separate and distinct from the activities of its owner and all other economic entities.

LO2 BT: C Difficulty: Moderate TOT: 6 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.5

Asset	Liability	Owner's Equity
Cash	Accounts payable	Owner's capital
Equipment	Notes payable	
Supplies	Salaries and wages payable	
Accounts receivable		

LO3 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.6

1. Increase in assets and increase in owner's equity.
2. Decrease in assets and decrease in owner's equity.
3. Increase in assets and increase in liabilities.
4. Increase in assets and increase in owner's equity.
5. Decrease in assets and decrease in owner's equity.
6. Increase in assets and decrease in assets.
7. Increase in liabilities and decrease in owner's equity.
8. Increase in assets and decrease in assets.
9. Increase in assets and increase in owner's equity.

LO4 BT: C Difficulty: Easy TOT: 7 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.7

- | | |
|--------|--------|
| 1. (c) | 5. (d) |
| 2. (d) | 6. (b) |
| 3. (a) | 7. (e) |
| 4. (b) | 8. (f) |

LO4 BT: C Difficulty: Easy TOT: 5 min. AACSB: None AICPA FC: Reporting

EXERCISE 1.8

- (a)
1. Owner invested \$15,000 cash in the business.
 2. Purchased equipment for \$5,000, paying \$2,000 in cash and the balance of \$3,000 on credit.
 3. Paid \$750 cash for supplies.
 4. Performed \$8,500 of services, receiving \$4,000 cash and \$4,500 on account.
 5. Paid \$1,500 cash on accounts payable.

EXERCISE 1.8 (Continued)

6. Owner withdrew \$2,000 cash for personal use.
7. Paid \$560 cash for rent.
8. Collected \$450 cash from customers on account.
9. Paid salaries and wages of \$4,800.
10. Incurred \$400 of utilities expense on account.

(b) Owner's investment.....	\$15,000
Service revenue.....	8,500
Drawings.....	(2,000)
Rent expense.....	(560)
Salaries and wages expense.....	(4,800)
Utilities expense.....	(400)
Increase in owner's equity.....	<u>\$15,740</u>

(\$15,000 + \$8,500 - \$2,000 - \$560 - \$4,800 - \$400 = \$15,740)

(Invest. + Serv. rev. - Owner's draw. - Rent exp. - Sal. & wages exp. - Util. exp. = Incr. in owner's equity)

(c) Service revenue.....	\$8,500
Rent expense.....	(560)
Salaries and wages expense.....	(4,800)
Utilities expense.....	(400)
Net income.....	<u>\$2,740</u>

[\$8,500 - (\$560 + \$4,800 + \$400) = \$2,740]

[Serv. rev. - (Rent exp. + Sal. & wages exp. + Util. exp.) = Net inc.]

LO4 BT: AP Difficulty: Moderate TOT: 15 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.9

PEAT DELOITTE & CO. Income Statement For the Month Ended August 31, 2022

Revenues	
Service revenue.....	\$8,500
Expenses	
Salaries and wages expense.....	\$4,800
Rent expense.....	560
Utilities expense.....	<u>400</u>
Total expenses.....	<u>5,760</u>
Net income.....	<u>\$2,740</u>

[\$8,500 - (\$4,800 + \$560 + \$400) = \$2,740]

[Serv. rev. - (Sal. & wages exp. + Rent exp. + Util. exp.) = Net inc.]

EXERCISE 1.9 (Continued)

PEAT DELOITTE & CO.
Owner's Equity Statement
For the Month Ended August 31, 2022

Owner's capital, August 1.....		\$	0
Add: Investments.....	\$15,000		
Net income.....	<u>2,740</u>		<u>17,740</u>
			17,740
Less: Drawings.....			<u>2,000</u>
Owner's capital, August 31.....			<u>\$15,740</u>

[\$0 + (\$15,000 + \$2,740) - \$2,000 = \$15,740]

[Beg. owner's cap. + (Invest. + Net inc.) - Owner's draw. = End. owner's cap.]

PEAT DELOITTE & CO.
Balance Sheet
August 31, 2022

<u>Assets</u>	
Cash.....	\$ 7,840
Accounts receivable.....	4,050
Supplies.....	750
Equipment.....	<u>5,000</u>
Total assets.....	<u>\$17,640</u>

Liabilities and Owner's Equity

Liabilities	
Accounts payable.....	\$ 1,900
Owner's equity	
Owner's capital.....	<u>15,740</u>
Total liabilities and owner's equity.....	<u>\$17,640</u>

[(\$7,840 + \$4,050 + \$750 + \$5,000) = (\$1,900 + \$15,740)]

[(Cash + Accts. rec. + Supp. + Equip.) = Accts. pay. + Owner's cap.]

LO5 BT: AP Difficulty: Easy TOT: 15 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.10

(a) Owner's equity—12/31/21 (\$400,000 – \$250,000).....	\$150,000
Less: Owner's investment—1/1/21.....	<u>100,000</u>
Increase in owner's equity.....	50,000
Add: Drawings.....	<u>12,000</u>
Net income for 2021.....	<u>\$ 62,000</u>

$[(\$400,000 - \$250,000) - \$100,000 + \$12,000 = \$62,000]$

$[(\text{End. assets} - \text{End. liabl.}) - \text{Owner's invest.} + \text{Owner's draw.} = \text{Net inc.}]$

(b) Owner's equity—12/31/22 (\$460,000 – \$300,000).....	\$160,000
Less: Owner's equity—1/1/22—see (a).....	<u>150,000</u>
Increase in owner's equity.....	10,000
Less: Additional investment.....	<u>34,000</u>
Net loss for 2022.....	<u>\$ (24,000)</u>

$[(\$460,000 - \$300,000) - \$150,000 - \$34,000 = \$ (24,000)]$

$[(\text{End. assets} - \text{End. liabl.}) - \text{Beg. owner's equity} - \text{Addl. invest.} = \text{Net loss}]$

(c) Owner's equity—12/31/23 (\$590,000 – \$400,000).....	\$190,000
Less: Owner's equity—1/1/23—see (b).....	<u>160,000</u>
Increase in owner's equity.....	30,000
Less: Additional investment.....	<u>12,000</u>
	18,000
Add: Drawings.....	<u>25,000</u>
Net income for 2023.....	<u>\$ 43,000</u>

$[(\$590,000 - \$400,000) - \$160,000 - \$12,000 + \$25,000 = \$43,000]$

$[(\text{End. assets} - \text{End. liabl.}) - \text{Beg. owner's equity} - \text{Addl. invest.} + \text{Owner's draw.} = \text{Net inc.}]$

LO5 BT: AP Difficulty: Moderate TOT: 15 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.11

(a) Total assets (beginning of year).....	\$110,000
Less: Total liabilities (beginning of year).....	<u>85,000</u>
Total owner's equity (beginning of year).....	<u>\$ 25,000</u>

$(\$110,000 - \$85,000 = \$25,000)$

$(\text{Beg. tot. assets} - \text{Beg. tot. liabl.} = \text{Beg. owner's equity})$

(b) Total owner's equity (end of year).....	\$ 40,000
Less: Total owner's equity (beginning of year).....	<u>25,000</u>
Increase in owner's equity.....	<u>\$ 15,000</u>

EXERCISE 1.11 (Continued)

Total revenues.....		\$220,000
Total expenses.....		<u>175,000</u>
Net income.....		<u>\$ 45,000</u>

Increase in owner's equity.....		\$ 15,000
Less: Net income.....	\$45,000	
Add: Drawings.....	<u>37,000</u>	<u>(8,000)</u>
Additional investment.....		<u>\$ 7,000</u>

(\$40,000 - \$25,000 = \$15,000); (\$220,000 - \$175,000 = \$45,000); [\$15,000 - (\$45,000 - \$37,000) = \$7,000]
(End. tot. owner's equity - Beg. tot. owner's equity = Incr. in owner's equity); (Tot. rev. - Tot. exp. = Net inc.);
[Incr. in owner's equity - (Net inc. - Owner's draw.) = Addl. invest.]

(c) Total assets (beginning of year).....	\$129,000
Less: Total owner's equity (beginning of year).....	<u>80,000</u>
Total liabilities (beginning of year).....	<u>\$ 49,000</u>

(\$129,000 - \$80,000 = \$49,000)

(Beg. tot. assets - Beg. tot. owner's equity = Beg. tot. liabl.)

(d) Total owner's equity (end of year).....	\$130,000
Less: Total owner's equity (beginning of year).....	<u>80,000</u>
Increase in owner's equity.....	<u>\$ 50,000</u>

Total revenues.....	\$100,000
Total expenses.....	<u>60,000</u>
Net income.....	<u>\$ 40,000</u>

Increase in owner's equity.....	\$ 50,000
Less: Net income.....	\$40,000
Additional investment.....	<u>25,000</u>
Drawings.....	<u>65,000</u>
	<u>\$ 15,000</u>

(\$130,000 - \$80,000 = \$50,000); (\$100,000 - \$60,000 = \$40,000); [\$50,000 - (\$40,000 + \$25,000) = \$15,000]
(End. owner's equity - Beg. owner's equity = Incr. in owner's equity); (Tot. rev. - Tot. exp. = Net inc.); (Incr. in owner's equity - (Net inc. + Addl. invest.) = Owner's draw.)

LO5 BT: AN Difficulty: Moderate TOT: 8 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.12

FLEETE CO.
Income Statement
For the Year Ended December 31, 2022

Revenues		
Service revenue.....		\$63,600
Expenses		
Salaries and wages expense.....	\$30,200	
Rent expense.....	10,400	
Utilities expense.....	3,100	
Advertising expense.....	<u>1,800</u>	
Total expenses.....		<u>45,500</u>
Net income.....		<u>\$18,100</u>

[$\$63,600 - (\$30,200 + \$10,400 + \$3,100 + \$1,800) = \$18,100$]
[Serv. rev. – (Sal. & wages exp. + Rent exp. + Util. exp. + Advert. exp.) = Net inc.]

FLEETE CO.
Owner's Equity Statement
For the Year Ended December 31, 2022

Owner's capital, January 1.....	\$42,000
Add: Net income.....	<u>18,100</u>
	60,100
Less: Drawings.....	<u>6,000</u>
Owner's capital, December 31.....	<u>\$54,100</u>

($\$42,000 + \$18,100 - \$6,000 = \$54,100$)
(Beg. owner's cap. + Net inc. – Owner's draw. = End. owner's cap.)
LO5 BT: AP Difficulty: Moderate TOT: 10 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.13

CHENG COMPANY
Balance Sheet
December 31, 2022

<u>Assets</u>	
Cash.....	\$15,000
Accounts receivable.....	6,500
Supplies.....	8,000
Equipment.....	<u>46,000</u>
Total assets.....	<u>\$75,500</u>

EXERCISE 1.13 (Continued)

Liabilities and Owner's Equity

Liabilities

Accounts payable..... \$21,000

Owner's equity

Owner's capital (\$67,500 – \$13,000)..... 54,500

Total liabilities and owner's equity..... \$75,500

$[(\$15,000 + \$6,500 + \$8,000 + \$46,000) = \$21,000 + (\$67,500 - \$13,000)]$

$[(\text{Cash} + \text{Accts. rec.} + \text{Supp.} + \text{Equip.}) = \text{Accts. pay.} + (\text{Owner's cap.} - \text{Owner's draw.})]$

LO5 BT: AN Difficulty: Easy TOT: 10 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.14

(a) Camping fee revenues..... \$140,000

General store revenues..... 65,000

Total revenue..... 205,000

Expenses..... 160,000

Net income..... \$ 45,000

$[(\$140,000 + \$65,000) - \$160,000 = \$45,000]$

$[(\text{Camp. fee rev.} + \text{Gen. store rev.}) - \text{Exp.} = \text{Net inc.}]$

(b) **BUENA VISTA PARK**
Balance Sheet
December 31, 2022

Assets

Cash..... \$ 23,000

Accounts Receivable..... 17,500

Equipment..... 115,500

Total assets..... \$156,000

Liabilities and Owner's Equity

Liabilities

Notes payable..... \$ 60,000

Accounts payable..... 11,000

Total liabilities..... 71,000

Owner's equity

Owner's capital (\$156,000 – \$71,000)..... 85,000

Total liabilities and owner's equity..... \$156,000

$[(\$23,000 + \$17,500 + \$115,500) = (\$60,000 + \$11,000) + (\$156,000 - \$71,000)]$

$[(\text{Cash} + \text{Accts. rec.} + \text{Equip.}) = (\text{Notes pay.} + \text{Accts. pay.}) + \text{Owner's cap.}]$

LO5 BT: AP Difficulty: Easy TOT: 12 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.15

SEA LEGS CRUISE COMPANY
Income Statement
For the Year Ended December 31, 2022

Revenues	
Ticket revenue.....	\$410,000
Expenses	
Salaries and wages expense.....	\$142,000
Maintenance and repairs expense.....	95,000
Advertising expense.....	24,500
Utilities expense.....	<u>13,000</u>
Total expenses.....	<u>274,500</u>
Net income.....	<u>\$135,500</u>

[\$410,000 – (\$142,000 + \$95,000 + \$24,500 + \$13,000) = \$135,500]

[Ticket rev. – (Sal. & wages exp. + Maint. & repairs exp. + Advert. exp. + Util. exp.) = Net inc.]

LO5 BT: AP Difficulty: Easy TOT: 6 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.16

HELEN ARCHER, ATTORNEY
Owner's Equity Statement
For the Year Ended December 31, 2022

Owner's capital, January 1.....	\$ 36,000 (a)
Add: Net income.....	<u>119,000 (b)</u>
	155,000
Less: Drawings (\$155,000 - \$68,000).....	<u>87,000</u>
Owner's capital, December 31.....	<u>\$ 68,000 (c)</u>

Supporting Computations

(a) Assets, January 1, 2022.....	\$ 98,000
Less: Liabilities, January 1, 2022.....	<u>62,000</u>
Owner's capital, January 1, 2022.....	<u>\$ 36,000</u>
(b) Legal service revenue.....	\$330,000
Total expenses.....	<u>211,000</u>
Net income.....	<u>\$119,000</u>

EXERCISE 1.16 (Continued)

(c) Assets, December 31, 2022.....	\$168,000
Less: Liabilities, December 31, 2022.....	<u>100,000</u>
Capital, December 31, 2022.....	<u>\$ 68,000</u>

$[(\$98,000 - \$62,000) + (\$330,000 - \$211,000) - \$87,000 = \$68,000]$

$[(\text{Beg. assets} - \text{Beg. liabl.}) + (\text{Legal serv. rev.} - \text{Tot. exp.}) - \text{Owner's draw.} = \text{End. owner's cap.}]$

LO5 BT: AP Difficulty: Moderate TOT: 8 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.17

PAULO COMPANY Statement of Cash Flows For the Year Ended December 31, 2022

Cash flows from operating activities		
Cash receipts from revenues.....		\$600,000
Cash payments for expenses.....		<u>(430,000)</u>
Net cash provided by operating activities.....		170,000
Cash flows investing activities		
Purchase of equipment.....		(115,000)
Cash flows from financing activities		
Investment by owner.....	\$280,000	
Drawings by owner.....	<u>(18,000)</u>	262,000
Net increase in cash.....		317,000
Cash at the beginning of the period.....		<u>30,000</u>
Cash at the end of the period.....		<u>\$347,000</u>

LO5 BT: AP Difficulty: Moderate TOT: 6 min. AACSB: Analytic AICPA FC: Reporting

EXERCISE 1.18

Transactions 4, 5, and 7 are operating activities.

Transaction 3 is an investing activity.

Transactions 1, 2, and 6 are financing activities.

LO5 BT: C Difficulty: Easy TOT: 4 min. AACSB: None AICPA FC: Reporting

(a)

SPENGL'S TRAVEL AGENCY									
Assets				=Liabilities +	Owner's Equity				
Cash	Accounts +Receivable	+Supplies	+Equipment	=	Accounts Payable	+	Owner's Capital	-	Owner's Drawings + Revenues - Expenses
1. +\$15,000							+\$15,000		
2. -600									-\$600
3. -3,000			+\$3,000						
4.					+\$700				-700
5. -900		+\$900							
6. +3,000	+\$7,000								+\$10,000
7. -600								-\$600	
8. -500					-500				
9. -2,500									-2,500
10. +4,000	-4,000				-				
<u>\$13,900</u>	<u>+ \$3,000</u>	<u>+ \$900</u>	<u>+ \$3,000</u>	=	<u>\$200</u>	<u>+</u>	<u>\$15,000</u>	<u>-</u>	<u>\$600</u> <u>+ \$10,000</u> <u>- \$3,800</u>
\$20,800					\$20,800				

PROBLEM 1.1 (Continued)

(b) Service revenue.....			\$10,000
Expenses			
Salaries and wages expense.....	\$2,500		
Advertising expense.....	700		
Rent expense.....	<u>600</u>	<u>3,800</u>	
Net income.....		<u>\$ 6,200</u>	

[\$10,000 – (\$2,500 + \$700 + \$600) = \$6,200]
[Serv. rev. – (Sal. & wages exp. + Advert. exp. + Rent exp.) = Net inc.
LO 3, 4 BT: AP Difficulty: Moderate TOT: 45 min. AACSB: Analytic AICPA FC: Reporting

PROBLEM 1.2

(a)

SONYA JARED, ATTORNEY AT LAW											
Assets					=	Liabilities		+	Owner's Equity		
	Cash	+ Accounts Receivable	+ Supplies	+ Equipment	=	Notes Payable	+ Accounts Payable	+ Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
Bal.	\$5,000	+ \$1,500	+ \$500	+ \$6,000	=		\$4,200	+ \$8,800			
1.	+1,200	-1,200									
2.	-2,800						-2,800				
3.	+4,000	+3,500								+7,500	
4.	-400			+2,000			+1,600				
5.	-4,100										-\$2,800
											-900
											-400
6.	-700								-\$700		
7.	+2,000					+2,000					
8.							+270				-270
	<u>\$4,200</u>	+ <u>\$3,800</u>	+ <u>\$500</u>	+ <u>\$8,000</u>	=	<u>\$2,000</u>	+ <u>\$3,270</u>	+ <u>\$8,800</u>	- <u>\$700</u>	+ <u>\$7,500</u>	- <u>\$4,370</u>
	\$16,500					\$16,500					

PROBLEM 1.2 (Continued)

(b) SONYA JARED, ATTORNEY AT LAW
Income Statement
For the Month Ended August 31, 2022

Revenues		
Service revenue.....		\$7,500
Expenses		
Salaries and wages expense.....	\$2,800	
Rent expense.....	900	
Advertising expense.....	400	
Utilities expense.....	270	
Total expenses.....		<u>4,370</u>
Net income.....		<u>\$3,130</u>

[\$7,500 – (\$2,800 + \$900 + \$400 + \$270) = \$3,130]

[Serv. rev. – (Sal. & wages exp. + Rent exp. + Advert. exp. + Util. exp.) = Net inc.]

SONYA JARED, ATTORNEY AT LAW
Owner's Equity Statement
For the Month Ended August 31, 2022

Owner's capital, August 1.....	\$ 8,800
Add: Net income.....	<u>3,130</u>
	11,930
Less: Drawings.....	<u>700</u>
Owner's capital, August 31.....	<u>\$11,230</u>

(\$8,800 + \$3,130 - \$700 = \$11,230)

(Beg. owner's cap. + Net inc. – Owner's draw. = End. owner's cap.)

PROBLEM 1.2 (Continued)

SONYA JARED, ATTORNEY AT LAW Balance Sheet August 31, 2022

<u>Assets</u>	
Cash.....	\$ 4,200
Accounts receivable.....	3,800
Supplies.....	500
Equipment.....	8,000
Total assets.....	<u>\$16,500</u>

<u>Liabilities and Owner's Equity</u>	
Liabilities	
Notes payable.....	\$ 2,000
Accounts payable.....	3,270
Total liabilities.....	5,270
Owner's equity	
Owner's capital.....	<u>11,230</u>
Total liabilities and owner's equity.....	<u>\$16,500</u>

[(\$4,200 + \$3,800 + \$500 + \$8,000) = (\$2,000 + \$3,270) + \$11,230]

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay) + Owner's cap.]

LO 4, 5 BT: AP Difficulty: Moderate TOT: 55 min. AACSB: Analytic AICPA FC: Reporting

PROBLEM 1.3

(a)

DIVINE DESIGNS CO. **Income Statement** **For the Month Ended June 30, 2022**

Revenues		
Service revenue.....		\$6,500
Expenses		
Rent expense.....	\$1,600	
Advertising expense.....	500	
Gasoline expense.....	200	
Utilities expense.....	<u>150</u>	
Total expenses.....		<u>2,450</u>
Net income.....		<u><u>\$4,050</u></u>

[\$6,500 – (\$1,600 + \$500 + \$200 + \$150) = \$4,050]

[Serv. rev. – (Rent exp. + Advert. exp. + Gas. exp. + Util. exp.) = Net inc.]

DIVINE DESIGNS CO. **Owner's Equity Statement** **For the Month Ended June 30, 2022**

Owner's capital, June 1.....		\$ 0
Add: Investments.....	\$12,000	
Net income.....	<u>4,050</u>	<u>16,050</u>
		16,050
Less: Drawings.....		<u>1,300</u>
Owner's capital, June 30.....		<u><u>\$14,750</u></u>

[\$0 + (\$12,000 + \$4,050) – \$1,300 = \$14,750]

[Beg. owner's cap. + (Invest. + Net inc.) – Owner's draw. = End. owner's cap.]

PROBLEM 1.3 (Continued)

DIVINE DESIGNS CO.
Balance Sheet
June 30, 2022

<u>Assets</u>	
Cash.....	\$10,150
Accounts receivable.....	2,800
Supplies.....	2,000
Equipment.....	<u>10,000</u>
Total assets.....	<u>\$24,950</u>
<u>Liabilities and Owner's Equity</u>	
Liabilities	
Notes payable.....	\$ 9,000
Accounts payable.....	<u>1,200</u>
Total liabilities.....	10,200
Owner's equity	
Owner's capital.....	<u>14,750</u>
Total liabilities and owner's equity.....	<u>\$24,950</u>
[(\$10,150 + \$2,800 + \$2,000 + \$10,000) = (\$9,000 + \$1,200) + \$14,750]	
[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + Owner's cap.]	

(b)

DIVINE DESIGNS CO.
Income Statement
For the Month Ended June 30, 2022

Revenues	
Service revenue (\$6,500 + \$900).....	\$7,400
Expenses	
Rent expense.....	\$1,600
Advertising expense.....	500
Gasoline expense (\$200 + \$150).....	350
Utilities expense.....	<u>150</u>
Total expenses.....	<u>2,600</u>
Net income.....	<u>\$4,800</u>
[(\$6,500 + \$900) – (\$1,600 + \$500 + (\$200 + \$150) + \$150) = \$4,800]	
[Serv. rev. – (Rent exp. + Advert. exp. + Gas. exp. + Util. exp.) = Net inc.]	

PROBLEM 1.3 (Continued)

DIVINE DESIGNS CO. Owner's Equity Statement For the Month Ended June 30, 2022

Owner's capital, June 1.....		\$	0
Add: Investments.....	\$12,000		
Net income.....	<u>4,800</u>		<u>16,800</u>
			16,800
Less: Drawings.....			<u>1,300</u>
Owner's capital, June 30.....			<u><u>\$15,500</u></u>

[\$0 + (\$12,000 + \$4,800) - \$1,300 = \$15,500]

[Beg. owner's cap. + (Invest. + Net inc.) - Owner's draw. = End. owner's cap.]

LO5 BT: AP Difficulty: Moderate TOT: 55 min. AACSB: Analytic AICPA FC: Reporting

(a)

MAISIE CONSULTING

Date	Assets				=	Liabilities		+	Owner's Equity			
	Cash	Accounts + Receivable	+ Supplies	+ Equipment	=	Notes Payable	Accounts Payable	+	Owner's Capital	- Owner's Drawings	+ Revenues	- Expenses
May 1	\$ 7,000								\$7,000			
2	-900											\$ -900
3			\$800				\$ 800					
5	-125											-125
9	4,000										\$ 4,000	
12	-1,000									\$-1,000		
15		\$6,400									6,400	
17	-2,500											-2,500
20	-600						-600					
23	4,000	-4,000										
26	5,000					\$5,000						
29				\$4,200			4,200					
30	-275											-275
	<u>\$14,600</u>	<u>+</u> <u>\$2,400</u>	<u>+</u> <u>\$800</u>	<u>+</u> <u>\$4,200</u>	=	<u>\$5,000</u>	<u>+</u> <u>\$4,400</u>	<u>+</u> <u>\$7,000</u>	<u>-</u> <u>\$1,000</u>	<u>+</u> <u>\$10,400</u>	<u>-</u> <u>\$3,800</u>	
	\$22,000					\$22,000						

PROBLEM 1.4 (Continued)

(b) **MAISIE CONSULTING**
Income Statement
For the Month Ended May 31, 2022

Revenues		
Service revenue (\$4,000 + \$6,400).....		\$10,400
Expenses		
Salaries and wages expense.....	\$2,500	
Rent expense.....	900	
Utilities expense.....	275	
Advertising expense.....	125	
Total expenses.....		<u>3,800</u>
Net income.....		<u>\$6,600</u>

[\$10,400 – (\$2,500 + \$900 + \$275 + \$125) = \$6,600]

[Serv. rev. – (Sal. & wages exp. + Rent exp. + Util. exp. + Advert. exp.) = Net inc.]

(c) **MAISIE CONSULTING**
Balance Sheet
May 31, 2022

<u>Assets</u>	
Cash.....	\$14,600
Accounts receivable.....	2,400
Supplies.....	800
Equipment.....	<u>4,200</u>
Total assets.....	<u>\$22,000</u>
<u>Liabilities and Owner's Equity</u>	
Liabilities	
Notes payable.....	\$ 5,000
Accounts payable.....	<u>4,400</u>
Total liabilities.....	9,400
Owner's equity	
Owner's capital.....	<u>12,600*</u>
Total liabilities and owner's equity.....	<u>\$22,000</u>

***(\$7,000 + \$6,600 – \$1,000)**

[(\$14,600 + \$2,400 + \$800 + \$4,200) = (\$5,000 + \$4,400) + (\$7,000 + \$6,600 - \$1,000)]

[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay.) + Owner's cap.]

LO4, 5 BT: AP Difficulty: Moderate TOT: 45 min. AACSB: Analytic AICPA FC: Reporting

PROBLEM 1.5

(a) $(\$80,000 - \$41,000 = \$39,000)$; $(1/1/22 \text{ Assets} - 1/1/22 \text{ Liabl.} = 1/1/22 \text{ Owner's equity})$
 (b) $(\$60,000 + \$50,000 = \$110,000)$; $(12/31/22 \text{ Liabl.} + 12/31/22 \text{ Owner's equity} = 12/31/22 \text{ Assets})$
 (c) $[\$50,000 - (\$39,000 + (\$350,000 - \$333,000) - \$15,000) = \$9,000]$; $[\text{End. owner's equity} - (\text{Beg. owner's equity} + (\text{Rev.} - \text{Exp.}) - \text{Draw.} = \text{Add'l. invest.}]$
 (d) $(\$90,000 - \$40,000 = \$50,000)$; $(1/1/22 \text{ Assets} - 1/1/22 \text{ Owner's equity} = 1/1/22 \text{ Liabl.})$
 (e) $(\$112,000 - \$72,000 = \$40,000)$; $(12/31/22 \text{ Assets} - 12/31/22 \text{ Liabl.} = 12/31/22 \text{ Owner's equity})$
 (f) $[\$40,000 - (\$40,000 + (\$410,000 - \$385,000) + \$8,000) = \$33,000]$; $[12/31/22 \text{ Owner's equity} - (\text{Beg. owner's equity} + (\text{Rev.} - \text{Exp.}) + \text{Invest.}) = \text{Draw.}]$
 (g) $(\$80,000 + \$49,000 = \$129,000)$; $(1/1/22 \text{ Liabl.} + 1/1/22 \text{ Owner's equity} = 1/1/22 \text{ Assets})$
 (h) $(\$170,000 - \$82,000 = \$88,000)$; $(12/31/22 \text{ Assets} - 12/31/22 \text{ Owner's equity} = 12/31/22 \text{ Liabl.})$
 (i) $[(\$82,000 - \$49,000) + \$350,000 - \$10,000 + \$12,000 = \$385,000]$; $[(12/31/22 \text{ Owner's equity} - 1/1/22 \text{ Owner's equity}) + \text{Exp.} - \text{Add'l. invest.} + \text{Draw.} = \text{Rev.}]$
 (j) $(\$150,000 - \$90,000 = \$60,000)$; $(1/1/22 \text{ Assets} - 1/1/22 \text{ Owner's equity} = 1/1/22 \text{ Liabl.})$
 (k) $(\$100,000 + \$151,000 = \$251,000)$; $(12/31/22 \text{ Liabl.} + 12/31/22 \text{ Owner's equity} = 12/31/22 \text{ Assets})$
 (l) $(\$90,000 - \$151,000 + \$15,000 - \$10,000 + \$500,000 = \$444,000)$; $(1/1/22 \text{ Owner's equity} - 12/31/22 \text{ Owner's equity} + \text{Add'l. invest.} - \text{Draw.} + \text{Rev.} = \text{Exp.})$

(b) ALPHA COMPANY
Owner's Equity Statement
For the Year Ended December 31, 2022

Owner's capital, January 1.....		\$39,000
Add: Investment.....	\$ 9,000	
Net income.....	<u>17,000</u>	<u>26,000</u>
		65,000
Less: Drawings.....		<u>15,000</u>
Owner's capital, December 31.....		\$50,000

$$[\$39,000 + (\$9,000 + \$17,000) - \$15,000 = \$50,000]$$
$$[\text{Beg. owner's cap.} + (\text{Invest.} + \text{Net inc.}) - \text{Owner's draw.} = \text{End. owner's cap.}]$$

PROBLEM 1.5 (Continued)

(c) TO:
FROM: Student

The sequence of preparing financial statements is income statement, owner's equity statement, and balance sheet. The interrelationship of the owner's equity statement to the other financial statements results from the fact that net income from the income statement is reported in the owner's equity statement and ending capital reported in the owner's equity statement is the amount reported for owner's equity on the balance sheet.

LO4, 5 BT: AP Difficulty: Moderate TOT: 45 min. AACSB: Analytic AICPA FC: Reporting AICPA PC: Communication

- (a) Natalie has a choice between a sole proprietorship and a corporation. A partnership is not an option since she is the sole owner of the business.

A proprietorship is the easiest to create and operate because there are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship she will personally have unlimited liability for the debts of the business. Operating the business as a corporation would limit her liability to her investment in the business. Natalie will in all likelihood require the services of a lawyer to incorporate. Costs to incorporate as well as additional ongoing costs to administrate and operate the business as a corporation may be costly.

My recommendation is that Natalie choose the proprietorship form of business organization. This is a very small business where the cost of incorporating outweighs the benefits of incorporating at this point in time. Furthermore, it will be easier to stop operating the business if Natalie decides not to continue with it once she has finished college.

- (b) Yes, Natalie will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her services so she can establish her prices. She will need to know revenue and expenses so she can report her net income for income tax purposes, on an annual basis. If she borrows money, she will need financial statements so lenders can assess the liquidity, solvency, and profitability of the business. Natalie would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because they are timelier, but they are also more work to prepare.

CC1 (Continued)

(c) Assets: Cash, Accounts Receivable, Supplies, Equipment, Prepaid Insurance

Liabilities: Accounts Payable, Notes Payable

Owner's Equity: Owner's Capital, Owner's Drawings

Revenue: Service Revenue

Expenses: Advertising Expense, Rent Expense, Utilities Expense

(d) Natalie should have a separate bank account. This will make it easier to prepare financial statements for her business. The business is a separate entity from Natalie and must be accounted for separately.

LO1 BT: C Difficulty: Moderate TOT: 45 min. AACSB: None AICPA FC: Reporting AICPA PC: Communication

- (a) The students should identify all of the stakeholders in the case; that is, all the parties that are affected, either beneficially or negatively, by the action or decision described in the case. The list of stakeholders in this case is:
- Travis Chase, interviewee.
 - Both Baltimore firms.
 - Great Northern College.
- (b) The students should identify the ethical issues, dilemmas, or other considerations pertinent to the situation described in the case. In this case the ethical issues are:
- Is it proper that Travis charged both firms for the total travel costs rather than split the actual amount of \$296 between the two firms?
 - Is collecting \$592 as reimbursement for total costs of \$296 ethical behavior?
 - Did Travis deceive both firms or neither firm?
- (c) Each student must answer the question for himself/herself. Would you want to start your first job having deceived your employer before your first day of work? Would you be embarrassed if either firm found out that you double-charged? Would your school be embarrassed if your act was uncovered? Would you be proud to tell your professor that you collected your expenses twice?

LO2 BT: E Difficulty: Easy TOT: 12 min. AACSB: Ethics AICPA FC: Reporting AICPA PC: Ethical conduct, Communication

- (a) Apple's total assets at September 28, 2019 were \$338,516 million and at September 29, 2018 were \$365,725 million.
- (b) Apple had \$48,844 million of cash and cash equivalents at September 28, 2019.
- (c) Apple had accounts payable totaling \$46,236 million on September 28, 2019 and \$55,888 million on September 29, 2018.
- (d) Apple reports net sales for three consecutive years as follows:
- | | |
|------|-------------------|
| 2017 | \$229,234 million |
| 2018 | \$265,595 million |
| 2019 | \$260,174 million |
- (e) From 2018 to 2019, Apple's net income decreased \$4,275 million from \$59,531 million to \$55,256 million.

LO5 BT: AN Difficulty: Easy TOT: 12 min. AACSB: Analytic AICPA FC: Reporting

- | (a) | (in millions) | PepsiCo | Coca-Cola |
|-----|---------------------------|----------|-----------|
| 1. | Total assets | \$78,547 | \$86,381 |
| 2. | Accounts receivable (net) | \$ 7,822 | \$ 3,971 |
| 3. | Net revenues | \$67,161 | \$37,266 |
| 4. | Net income | \$ 7,353 | \$ 8,985 |
- (b) Coca-Cola's total assets were approximately 10% greater than PepsiCo's total assets, but PepsiCo's net revenues were 80% greater than Coca-Cola's net revenues. PepsiCo's accounts receivable were 97% greater than Coca-Cola's and represent 12% of its net revenues. Coca-Cola's accounts receivable amount to 11% of its net revenues. This is an indication that both companies are doing equally well at managing their accounts receivable

Coca-Cola's net income is 22% greater than PepsiCo's. It appears that these two companies' operations are comparable in some ways, with Coca-Cola's operations slightly more profitable.

LO5 BT: E Difficulty: Easy TOT: 15 min. AACSB: Analytic AICPA FC: Reporting AICPA PC: Communication

- | (a) | (in millions) | Amazon | Walmart |
|-----|---------------------------|-----------|-----------|
| 1. | Total assets | \$225,248 | \$236,495 |
| 2. | Accounts receivable (net) | \$ 20,816 | \$ 6,284 |
| 3. | Net sales (product only) | \$160,408 | \$519,926 |
| 4. | Net income (loss) | \$ 11,588 | \$ 15,201 |
- (b) Walmart's total assets were approximately 5% greater than Amazon's total assets, and Walmart's net sales were over 324% greater than Amazon's net product sales. Walmart's accounts receivable were roughly 3.3 times less than Amazon's and represent 1% of its net sales. Amazon's accounts receivable amount to approximately 13% of its net product sales. It appears that Amazon does a significantly larger volume of credit sales than Walmart and does not collect these receivables as efficiently as Walmart.

Finally, Walmart's net income is 31% higher than Amazon's. This indicates that even though these companies are relatively the same size in terms of total assets, Walmart is the more profitable of the two.

LO5 BT: E Difficulty: Easy TOT: 15 min. AACSB: Analytic AICPA FC: Reporting AICPA PC: Communication

(a) The four skill sets are: Strong leadership, Communication skills, Tech know-how, and Business savvy.

(b) These skill sets are useful for the following reasons:

Strong leadership: Being a good leader is a major plus in the business world. After all, strong leadership is critical to the success of any organization, whether it is a football team, movie production company, international accounting firm or locally owned restaurant.

Communication skills: In business and accounting there's demand for employees who don't just have technical skills, but strong people skills too. Speaking and listening abilities go a long way in a business career.

Tech know-how: Nearly every industry is computerized in some way, and computers are probably second nature to you. As a CPA, you'll need to know about existing and emerging technologies in business environments and understand how to use them effectively.

Business savvy: Being business savvy means mastering your creative problem-solving skills. You should know how to examine information, interpret it and find creative solutions. Innovative answers are what will get you respect in the business world – and so will responsibility, ethics and honesty.

LO6 BT: C Difficulty: Easy TOT: 20 min. AACSB: Technology, Communication AICPA FC: Reporting AICPA PC: Communication

- (a) The estimate of the \$6,100 loss was based on the difference between the \$25,000 invested in the driving range and the bank balance of \$18,900 at March 31. This is not a valid basis for determining income because it only shows the change in cash between two points in time.
- (b) The balance sheet at March 31 is as follows:

CHIP-SHOT DRIVING RANGE
Balance Sheet
March 31, 2022

<u>Assets</u>	
Cash.....	\$18,900
Buildings.....	8,000
Equipment.....	<u>800</u>
Total assets.....	<u>\$27,700</u>

Liabilities and Owner's Equity

Liabilities	
Accounts payable (\$100 + \$120).....	\$ 220
Owner's equity	
Owner's capital (\$27,700 – \$220).....	<u>27,480</u>
Total liabilities and owner's equity.....	<u>\$27,700</u>

[(\$18,900 + \$8,000 + \$800) = (\$100 + \$120) + (\$27,700 - \$220)]

[(Cash + Bldgs. + Equip.) = Accts. pay. + Owner's cap.]

As shown in the balance sheet, the owner's capital at March 31 is \$27,480. The estimate of \$2,480 of net income is the difference between the initial investment of \$25,000 and \$27,480. This was not a valid basis for determining net income because changes in owner's equity between two points in time may have been caused by factors unrelated to net income. For example, there may be drawings and/or additional capital investments by the owner(s).

CT1.5 (Continued)

- (c) Actual net income for March can be determined by adding owner's drawings to the change in owner's capital during the month as shown below:

Owner's capital, March 31, per balance sheet.....	\$27,480
Less: Owner's investment, March 1.....	<u>25,000</u>
Increase in owner's capital.....	2,480
Add: Owner's drawings.....	<u>1,000</u>
Net income.....	<u>\$ 3,480</u>

(\$27,480 - \$25,000 + \$1,000 = \$3,480)

(End. owner's cap. - Beg. owner's cap. + Owner's draw. = Net inc.)

Alternatively, net income can be found by first determining the revenues earned [described in (d) below] and then subtracting expenses.

- (d) Revenues earned can be determined by adding expenses incurred during the month to net income. March expenses were Rent, \$1,000; Wages, \$400; Advertising, \$750; and Utilities, \$120 for a total of \$2,270. Revenues earned, therefore, were \$5,750 (\$2,270 + \$3,480). Alternatively, since all revenues are received in cash, revenues earned can be computed from an analysis of the changes in cash as follows:

Beginning cash balance.....		\$25,000
Less: Cash payments		
Caddy shack.....	\$8,000	
Golf balls and clubs.....	800	
Rent.....	1,000	
Advertising.....	650	
Wages.....	400	
Drawings.....	<u>1,000</u>	<u>11,850</u>
Cash balance before revenues.....		13,150
Cash balance, March 31.....		<u>18,900</u>
Revenues earned.....		<u>\$ 5,750</u>

[\$25,000 - (\$8,000 + \$800 + \$1,000 + \$650 + \$400 + \$1,000) = \$13,150]; (\$18,900 - \$13,150 = \$5,750)

[Beg. cash bal. - (Caddy shack + Golf balls & clubs + Rent + Advert. + Wages + Drawings) = Cash bal. before rev.]; (End. cash bal. - Cash bal. before rev. = Rev. earned)

LO4 BT: AN Difficulty: Moderate TOT: 20 min. AACSB: Analytic, Communication AICPA FC: Reporting AICPA PC: Communication

To: Amy Sawyer
From: Student

I have received the balance sheet of New Hampshire Company as of December 31, 2022. A number of items on this balance sheet are not properly reported. A corrected balance sheet is attached. Listed below is a summary of the corrections.

- 1. The balance sheet should be dated as of a specific date, not for a period of time. Therefore, it should be dated “December 31, 2022.”**
- 2. Equipment should be shown below Supplies on the balance sheet.**
- 3. Accounts receivable should be shown as an asset, not a liability, and without parentheses. It should be reported between Cash and Supplies on the balance sheet.**
- 4. Accounts payable should be shown as a liability, not an asset, and without parentheses. The Notes payable should be reported above Accounts payable.**
- 5. Liabilities and owner’s equity are different classifications of accounts and should be reported separately on the balance sheet.**
- 6. Owner’s capital and Owner’s drawings are part of owner’s equity. The drawings account is not reported on the balance sheet but is subtracted from Owner’s capital to arrive at Owner’s capital balance at the end of the period.**

CT1.6 (Continued)

A correct balance sheet is as follows:

NEW HAMPSHIRE COMPANY
Balance Sheet
December 31, 2022

<u>Assets</u>	
Cash.....	\$ 9,000
Accounts receivable.....	5,000
Supplies.....	3,000
Equipment.....	<u>25,500</u>
	<u>\$42,500</u>
<u>Liabilities and Owner's Equity</u>	
Liabilities	
Notes payable.....	\$10,500
Accounts payable.....	<u>8,000</u>
Total liabilities.....	<u>18,500</u>
Owner's equity	
Owner's capital (\$26,000 – \$2,000).....	<u>24,000</u>
Total liabilities and owner's equity.....	<u>\$42,500</u>

[(\$9,000 + \$5,000 + \$3,000 + \$25,500) = (\$10,500 + \$8,000) + (\$26,000 - \$2,000)]
[(Cash + Accts. rec. + Supp. + Equip.) = (Notes pay. + Accts. pay) + Owner's cap.]
LO5 BT: AN Difficulty: Moderate TOT: 20 min. AACSB: Analytic, Communication AICPA FC: Reporting AICPA PC: Communication

- (a) Answers to the following will vary depending on students' opinions.
- (1) This does not represent the hiding of assets, but rather a choice as to the order of use of assets. This would seem to be ethical.
 - (2) This does not represent the hiding of assets, but rather is a change in the nature of assets. Since the expenditure was necessary, although perhaps accelerated, it would seem to be ethical.
 - (3) This represents an intentional attempt to deceive the financial aid office. It would therefore appear to be both unethical and potentially illegal.
 - (4) This is a difficult issue. By taking the leave, actual net income would be reduced. The form asks the applicant to report actual net income. However, it is potentially deceptive since you do not intend on taking unpaid absences in the future, thus future income would be higher than reported income.
- (b) Companies might want to overstate net income in order to potentially increase the stock price by improving investors' perceptions of the company. Also, a higher net income would make it easier to receive debt financing. Finally, managers would want a higher net income to increase the size of their bonuses.
- (c) Sometimes companies want to report a lower net income if they are negotiating with employees. For example, professional sports teams frequently argue that they cannot increase salaries because they aren't making enough money. This also occurs in negotiations with unions. For tax accounting (as opposed to the financial accounting in this course) companies frequently try to minimize the amount of reported taxable income, in order to minimize tax payments.
- (d) Unfortunately, many times people who are otherwise very ethical will make unethical decisions regarding financial reporting. They might be driven to do this because of greed. Frequently it is because their superiors have put pressure on them to take an unethical action, and they are afraid not to follow directions because they might lose their job. Also, in some instances top managers will tell subordinates that they should be a team player, and do the unethical action because it would help the company, and therefore would help fellow employees.

LO 2 BT: E Difficulty: Moderate TOT: 20 min. AACSB: Ethics, Communication AICPA FC: Reporting AICPA PC: Communication, Ethical conduct

The 5 aspirations relate to sustaining its business, its brands, its people, its community and the planet.

LO N/A BT: C Difficulty: Easy TOT: 10 min. AACSB: Communication AICPA FC: Reporting AICPA PC: Communication

No solution necessary

LO N/A BT: AP Difficulty: Moderate TOT: 20 min. AACSB: Technology AICPA FC: None

IFRS EXERCISES

IFRS1.1

The International Accounting Standards Board, IASB, and the Financial Accounting Standards Board, FASB, are two key players in developing international accounting standards. The IASB releases international standards known as International Financial Reporting Standards (IFRS). The FASB releases U.S. standards, referred to as Generally Accepted Accounting Principles or GAAP.

LO7 BT: K Difficulty: Easy TOT: 4 min. AACSB: Diversity AICPA FC: Measurement analysis and interpretation
AICPA BB: Global/Industry Perspective

IFRS1.2

A single set of high-quality accounting standards is needed because of increases in multinational corporations, mergers and acquisitions, use of information technology, and international financial markets.

LO7 BT: K Difficulty: Easy TOT: 2 min. AACSB: Diversity AICPA FC: Measurement analysis and interpretation
AICPA BB: Global/Industry Perspective

- (a) Mazars and Ernst & Young**
- (b) LVMH, 22, avenue Montaigne 75008 Paris- France**
- (c) The company reports in Euros.**

LO7 BT: AN Difficulty: Easy TOT: 5 min. AACSB: Diversity AICPA FC: Reporting AICPA BB: Global/Industry Perspective